ROBERT COWEN INVESTMENTS

NEWSLETTER – END DECEMBER 2020

13 January 2021

"It always seems impossible until it is done" – Nelson Mandela

"I like the dreams of the future better than the history of the past" – Thomas Jefferson

HIGHLIGHTS OF THIS NEWSLETTER ARE:

- A Month in Markets – December 2020
- Global Equity Outlook – by Anchor Capital
- What 2020 Taught Us – by Eric Lappeman
- The RCI BCI Growth Fund finishes top of its class for 2020
- Charts/Memes of the month
- RCI Unit Trusts
- RCI – 'The Family Wealth Office' – What we offer

A few interesting articles to read when you are done with this newsletter:

➢ A link to our year end webinar presentation, in case you missed it. The password is ?ChL6Z.R

On that note, we want to wish you all a prosperous 2021! May it be better than the last ;)

Note: If any of our clients wish to be added to the Anchor research and news mailing list, kindly let us know and we will gladly add you.

*If you know of anybody who would like their financial affairs looked at, please do not hesitate to send them our contact details and we will ensure we get back to them with a proposal plan. They can contact us at eric@rcinv.co.za or 082 561 3124.

A MONTH IN MARKETS

DECEMBER 2020

By Eric Lappeman

The Family Office

Global equities continued to rally in the fourth quarter as the US election results and positive news on the COVID-19 vaccines helped cyclical segments of the market to recover. Value stocks rose by 16% in the closing quarter of 2020, capping their best quarter since 2009, outperforming growth stocks that gained 13% over the same quarter. The last few days of the year brought long awaited relief for pandemic stricken companies and households, as US lawmakers in Congress finally agreed on a pandemic relief plan. Consumer spending was at risk without further government support.

US equities closed the month up handsomely, as risk-on appetite continued, following President-Elect Biden's victory and further promised stimulus. This also led the US dollar to fall. The S&P500 rose 3.8% for the month, while the tech-heavy Nasdaq also rallied 5.1%. Locally, the JSE All Share jumped 4.2% in ZAR, in line with the global risk on trade. The Rand gained a further 5.3% against the US Dollar, to close at R14.69, down 4.7% for 2020. The RCI Worldwide Flexible Fund closed the month down 3%, while the RCI Growth Fund closed up 3.7% for the month. These funds are now ranked 3rd and 1st respectively in their categories over the last year. The RCI Growth Fund closed up 54.7% for 2020 and, we are proud to say, is now ranked 1st in its category over the last 1, 2, 3 and 4 years.

It was a great month for commodities, as risk-on took hold and markets rallied strongly. Iron Ore and Palladium had a strong month, up 27% and 11% respectively. Gold also rose, as promise of further stimulus drove the US dollar down. Oil jumped 9% in December, to close the year down 22%. Among shares that made large moves, in what can be summed up as a strong month for SA equities, many of the property shares caught another proper bid, albeit off a very low base. The platinum counters also jumped on the back of a rising platinum price, with Amplats and Implats up 28% and 24% respectively. Among December's laggards, market heavyweight Naspers was notable, struggling in the face of a stronger rand and Chinese anti-trust threats for Tencent.

With that, we wish you all the best for 2021!

MONTHLY MARKET MATRIX

Indicator	Closing level	Monthly Move	Y-T-D	Indicator	Closing level	Monthly Move	Y-T-D
Equities				**Currency**			
MSCI World Index (USD)	**2690**	**4.3%**	**16.5%**	USD/ZAR	14.69	5.3%	-4.7%
S&P500 (USD)	3756	3.8%	18.4%	GBP/ZAR	20.08	2.7%	-7.4%
FTSE 100 (GBP)	6461	3.3%	-11.4%	EUR/ZAR	17.95	2.8%	-12.6%
Nikkei (JPY)	27444	3.9%	18.2%				
MSCI Emerging Markets Index (USD)	**1291**	**7.4%**	**18.7%**	**Commodities**			
JSE All Share Index (ZAR)	50483	4.2%	7.1%	Gold Spot (US$/oz)	1 898	6.8%	25.1%
JSE All Share Index (USD)	50483	9.4%	-2.3%	Palladium PM-fix (US$/oz)	2 342	-2.4%	22.9%
JSE Capped Swix All Share Index (ZAR)	19246	5.5%	0.6%	Platinum Spot (US$/oz)	1 072	10.8%	10.9%
RCI BCI Worldwide Flexible Fund (ZAR)	157.27	-3.0%	21.5%	Copper Cash LME (US$/ton)	7 749	2.4%	26.0%
RCI BCI Flexible Fund (ZAR)	372.81	3.7%	7.2%	Iron Ore (US$/ton)	156	26.8%	94.3%
RCI BCI Growth Fund (ZAR)	184.85	5.8%	54.7%	Brent Crude ($/Barrel)	52	8.8%	-21.5%
Bonds							
US 10 Year Treasury yield	0.91	-0.3%	10.0%				
SA 10 Year Govt Bond yield	8.75	2.5%	-8.8%				

Robert Cowen Investments
Growing families' wealth since 1982

MAJOR MOVES IN SHARES

MONTAUK HOLDINGS LTD	45.9%	MEDICLINIC INTERNATIONAL PLC	-2.0%
REDEFINE PROPERTIES LTD	40.5%	TELKOM SA SOC LTD	-2.0%
ECHO POLSKA PROPERTIES NV	36.0%	SUPER GROUP LTD	-2.9%
BARLOWORLD LTD	29.9%	MOTUS HOLDINGS LTD	-3.3%
FORTRESS REIT LTD-B	29.7%	NASPERS LTD-N SHS	-3.5%
MAS REAL ESTATE INC	28.8%	BIDVEST GROUP LTD	-3.8%
ANGLO AMERICAN PLATINUM LTD	28.1%	PROSUS NV	-4.8%
DISCOVERY LTD	24.6%	IRONGATE GROUP	-5.4%
IMPALA PLATINUM HOLDINGS LTD	24.1%	BID CORP LTD	-5.8%
PAN AFRICAN RESOURCES PLC	19.5%	JSE LTD	-7.1%

GLOBAL EQUITY OUTLOOK 2021

BY ANCHOR CAPITAL

Global equity markets ended the year up around 16% (MSCI World +16%, S&P +18%, FTSE down 14%, Emerging markets +18%), an outcome few would have forecast given the economic slump caused by Covid-19. World GDP growth is likely to end 2020 down around 4.4%, with consensus expecting a rebound of 5.2% in 2021.

While we are able to identify numerous shares we are happy to own for the next 12 months and beyond, we are more cautious on index levels on a 12-month view. Almost all respected forecasters of market returns were badly wrong in 2020 (twice!) and hence the (very pervasive) consensus for a positive 2021 should be viewed with some healthy scepticism.

Our 5% 12-month US$ forecast return for the MSCI World Equity index is relatively low conviction, given the range of potential outcomes.

The primary justification for being bullish on equities 2021 is the fact that central banks are providing unprecedented stimulus to the global economy, which has manifested itself in the double-barrel impact of low rates (you can't make money unless you take risk) and massive liquidity. Historically it has generally been unwise to "fight the Fed" and this is probably reason enough to maintain a healthy equity weighting. Reasons two and three for a bullish stance are pretty universally the obvious … the pandemic being defeated and strong year-on-year earnings growth in 2021 (off a 2020 earnings base in the US which is likely to end 18% down).

But as fundamental, bottom-up, growth investors we can't help feeling a little uneasy. We do believe valuations count and on that score the market is very expensive at a forward PE of 21.3x (MSCI World) and 22.6x for the S&P. This incorporates a substantial part of the anticipated global recovery. The average S&P forward PE for the last 10 years is 17x, suggesting the market valuation levels are 33% higher than the average of the last decade.

We have been in a rampant bull market since the bottom in March 2020 – in fact, we are up over 65% since the virus-infected bottom. Investors are getting worryingly comfortable, and it is not unusual for the market to remain bullish on big companies (with 10%-odd sustainable earnings growth numbers) trading at 30-40x PE multiples (eg. Microsoft). New IPOs have experienced extreme bull market characteristics. We valued Airbnb at around US$60 on listing and it quickly traded at over US$140.

So, let's just take a step back and think about the earnings fundamentals – S&P earnings growth expectations for 2020, 2021 and 2022 are projected at -18%, 30% and 17%. The big growth in 2021 should not be interpreted as sustainable or that meaningful, as a big element is clearly recovery from a low base. The key determinant of where market levels trade at the end of this year will be the expectation for 2022 and sustainable earnings growth thereafter. This will probably revert to historic averages – in the region of 6-7%.

While our base case is that the market goes up from here, what is glaringly obvious is that perfection is priced into many companies and probably the market as a whole. Rising global yields, an inflation surprise, some virus or vaccine hiccups (should we not expect these?), or some Chinese economic aggression (or many other things we cannot anticipate as we have learnt this year!) have a greater than usual potential to cause a material drop in markets, given the elevated starting point. We are generally happy to accept these gyrations – or we would not have started an equity-centric business – but the logical conclusion right now is to be on high alert and construct portfolios with this in mind.

And if stimulus is the key driver, do we need stimulus to get incrementally bigger to sustain the market moves? Morgan Stanley uses the phrase "peak stimulus" in its analysis and estimate that this happens in the next few months – the point at which economic recovery and the sheer scale of current stimulus means that the tank attendants slowly start injecting less rocket fuel as the tank becomes full. How much money can the world print?

An important and very material last point is that we are at an unique point in history, where technology is changing the world and we are ardent believers in the secular trends being sustained. The way we do business is changing dramatically and the business models that have emerged, which enable companies to scale at an unprecedented rate if they have a good idea (the network effect) with good execution, is creating cash flow monsters with extremely high returns and very high margins. Anchor clients have benefitted materially from exposure to high growth tech companies and the compelling and enduring nature of their growth rates means that macro concerns are much less relevant, but it doesn't mean that they can't experience material dips on their upward journey. They inevitably will. We are also very conscious of the fact that as valuations increase in this sector (which is now over 35% of global market cap), we have to become increasingly sensitive to share selection – many of the tech favourites will not achieve their now ubiquitous five and 10 year forecasts made to justify their valuations (I have never got the three year forecast for a company right!).

You have to own the winning businesses – at these valuations the losers will cost you big. This is no time for indexes which provide a broad thematic smattering.

On the subject of ETFs and passive investing, we believe they have a place and we sometimes use them in our portfolios for certain themes or geographical exposure. At the end of a bull market they can become more dangerous as the most expensive shares achieve the highest weightings and there is no ability to exclude bad businesses. We are proud, as active investment managers, to have consistently beaten our chosen equity benchmarks after costs. Passive investing guarantees underperformance relative to the same benchmarks.

We are in a bull market and it is probably equally dangerous to 1) call the top, or 2) dismiss the obvious risks. We feel uncomfortable making a 12-month projection, as is industry convention, and we have learnt this year so much can happen in this timeframe (2020 was down 35% and then up 65%!). Our forecast tables will reflect a mundane and seemingly unconvicted 5% 12-month return forecast, but what is more important is our investment approach over the next 12 months:

- Our portfolios will follow our investment philosophy of investing in high return companies whose valuations are justified by their long-term growth rates.
- We will ensure investors have sufficient exposure to companies that are changing the world.
- We will also seek to invest in good quality companies whose share prices have not been caught up in the hype.
- We start the year with relatively high equity weightings, cognisant that bull markets can last longer than seems justified. But caution is warranted.
- We will be alert and ever conscious of risks (to growth or valuation). We will be nimble and sufficiently conservative.
- We will be conscious of the facts, especially valuation.
- We will remember that global equities are the best place to invest over the longer term.

As 2021 evolves, we can’t help feeling like a winning sports team that is starting another game in good form. If the weather changes, form fades, or different players are required for different conditions, we will have no hesitation in changing the team list. Importantly, we are running onto the field with far more comfort in our individual players than the sport as a whole, which is what bottom-up investing is all about. We will endeavour to include some young talent that becomes the future stars and scores the extravagant tries, but we will ensure that the balance is weighted towards the stalwarts that we know can deliver. Let’s play …

WHAT 2020 TAUGHT US ABOUT THE FUTURE

BY ERIC LAPPEMAN

This was the year that felt like a decade. That's probably the most common thing you'll hear about 2020: the feeling that time slowed down

Time seems to have slowed in 2020 because, for the first time since childhood, many of us have been bombarded with new and surprising experiences. We learned how to work from home, how to use new technologies, and how powerful exponential growth can be. We also learned that the economy can stop overnight and that isolation is exhausting, even for introverts.

As we head into a new year — a vaccine in hand, light seemingly at the end of the tunnel despite a virus still raging — We have been thinking about what we learned from 2020, a surprising year, and what it means for 2021 and beyond. Three things come to mind;

RISK IS WHAT YOU DON'T SEE, AREN'T TALKING ABOUT, AND AREN'T PREPARED FOR

The investment industry spent the better part of the last decade debating what the biggest risk to the stock market and economy was. They wondered: Was it budget deficits? The Federal Reserve printing money? Trade wars? High valuations? Profit margins? Interest rate hikes? Tax hikes? An incredible amount of energy was spent on these topics. But in hindsight, we know none of those things were the biggest risk. The biggest risk by far was a virus no one was talking about until last year, because no one knew it existed before then. Last year was a blunt-force reminder that the biggest economic and investing risk is what no one's talking about, because if no one's talking about it no one's prepared for it, and if no one's prepared for it, its damage will be amplified when it arrives.

Paying attention to known risks is smart, but we should acknowledge that what we can't see and aren't talking about will likely be more consequential than all the known risks combined.

The solution isn't to become a fatalist. It's to value room for error, and expect that things like recessions and bear markets can occur at any moment, rather than relying on specific forecasts of when they will occur.

One way of investing can be centred around long-term optimism and an acceptance that market volatility does not prevent a company from innovating and creating value over the long run. Buying good companies and holding them for a long time does not rely on knowing when the next recession will come, what the market will do next quarter, or whether the biggest economic risk is an interest rate hike, a change to the tax code, or a pandemic.

INNOVATION AND PROGRESS DON'T TEND TO HAPPEN WHEN EVERYONE IS CALM, HAPPY, AND SAFE. THEY HAPPEN WHEN THERE'S A SHOCK TO THE SYSTEM AND PROBLEMS ARE SOLVED OUT OF NECESSITY

In 2019 physical offices were packed and, if your company was based in Johannesburg, you probably had to live in Johannesburg. Malls were packed. Airlines had their best year ever as business travel was at record levels. Then 2020 hit…

In April, Microsoft CEO Satya Nadella said, "We've seen two years' worth of digital transformation in two months." Similarly, Shopify CEO Tobias Lutke said "We are seeing GMVs that we had only predicted for 2030."

When technology was nice to have, companies embraced it warmly. When it was essential to survival, they bet the farm on it virtually overnight. It seems that a lot of the biggest innovations in history occurred this way – World War II led to penicillin, jets, rockets, atomic energy, micro processors, GPS, digital photography, etc. being created. Likewise, the Great Depression led to the rise of supermarkets, assembly lines and more.

It's true in 2020, too and I think it bodes well for 2021 and beyond. The hardest thing about stress-induced innovation is reconciling that positive long-term trends can be born when people are suffering the most. It makes the topic difficult to even discuss without looking insensitive, but think about what's happened in the past year.

As we look ahead to 2021, the focus is mostly on recovery from the damage inflicted in 2020. But beyond recovery, we should also recognize that we are — right now — in what is probably the greatest period of stress-induced, necessity-is-the-mother-of-invention periods we've seen in perhaps 80 years.

WHAT 2020 TAUGHT US ABOUT THE FUTURE

CONTINUED…

The Family Office

OPTIMISM BEGINS WELL BEFORE IT IS OBVIOUS

2020 saw the world economy turn so bad, so fast, creating a catastrophe potentially more severe than the Great Depression. Things were bad. They're still bad. And yet, The S&P 500 closed the year up 18.4%!

The bull market that began in late March 2020 caught many by surprise. It didn't seem to make any sense given how bad things were on the ground. It was easy to view the disconnect between Wall Street and Main Street as a sign of a bubble, perhaps propped up by the Federal Reserve's easy-money policies. And maybe it is. This story isn't over yet… However, there's a long history of the stock market rebounding well ahead of the economy, leaving many confused investors in its wake.

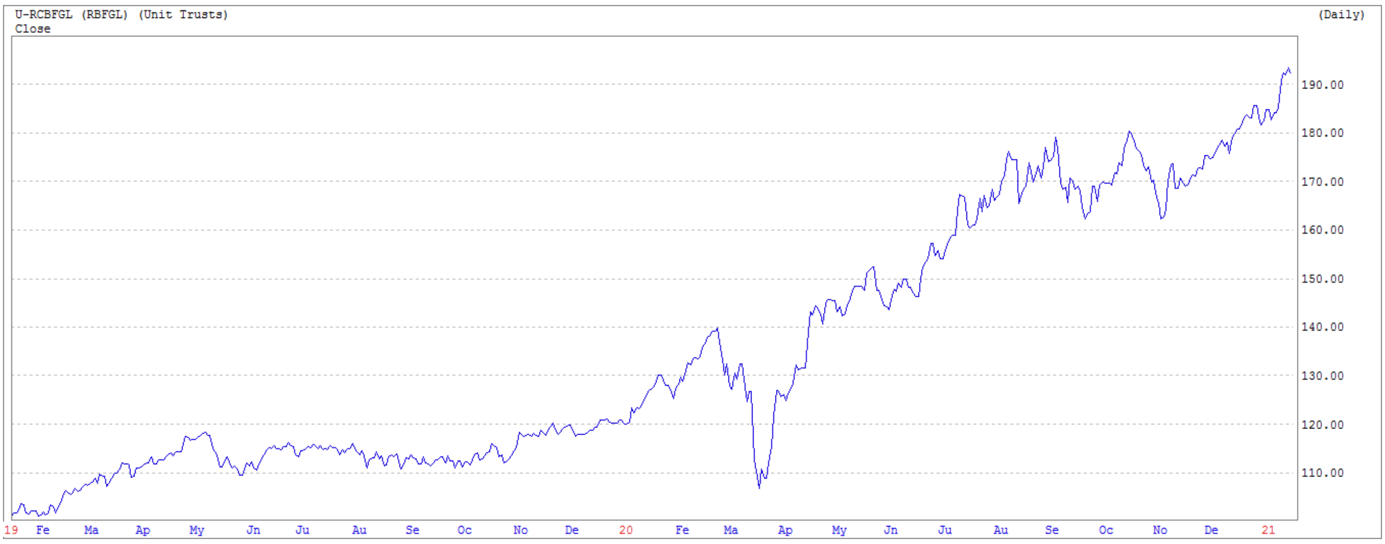
I'm not big on economic forecasting, both because it's not important to how I invest and because I think so few can do it accurately. Doing well as a long-term investor requires long-term optimism. But optimism has an important nuance that was reinforced in 2020: It does not mean when you think that everything will go right, there will only be good news. Optimism means things will likely work out in the long run, even if the short run is filled with bad news, setbacks, decline, disappointment, and damage. That's why the stock market can grow even when the economy is a mess. Do not underestimate the power of the sun rising again tomorrow!

Buffett summarized this perfectly in 2008 when he wrote: "*If you wait for the robins, spring will be over*."

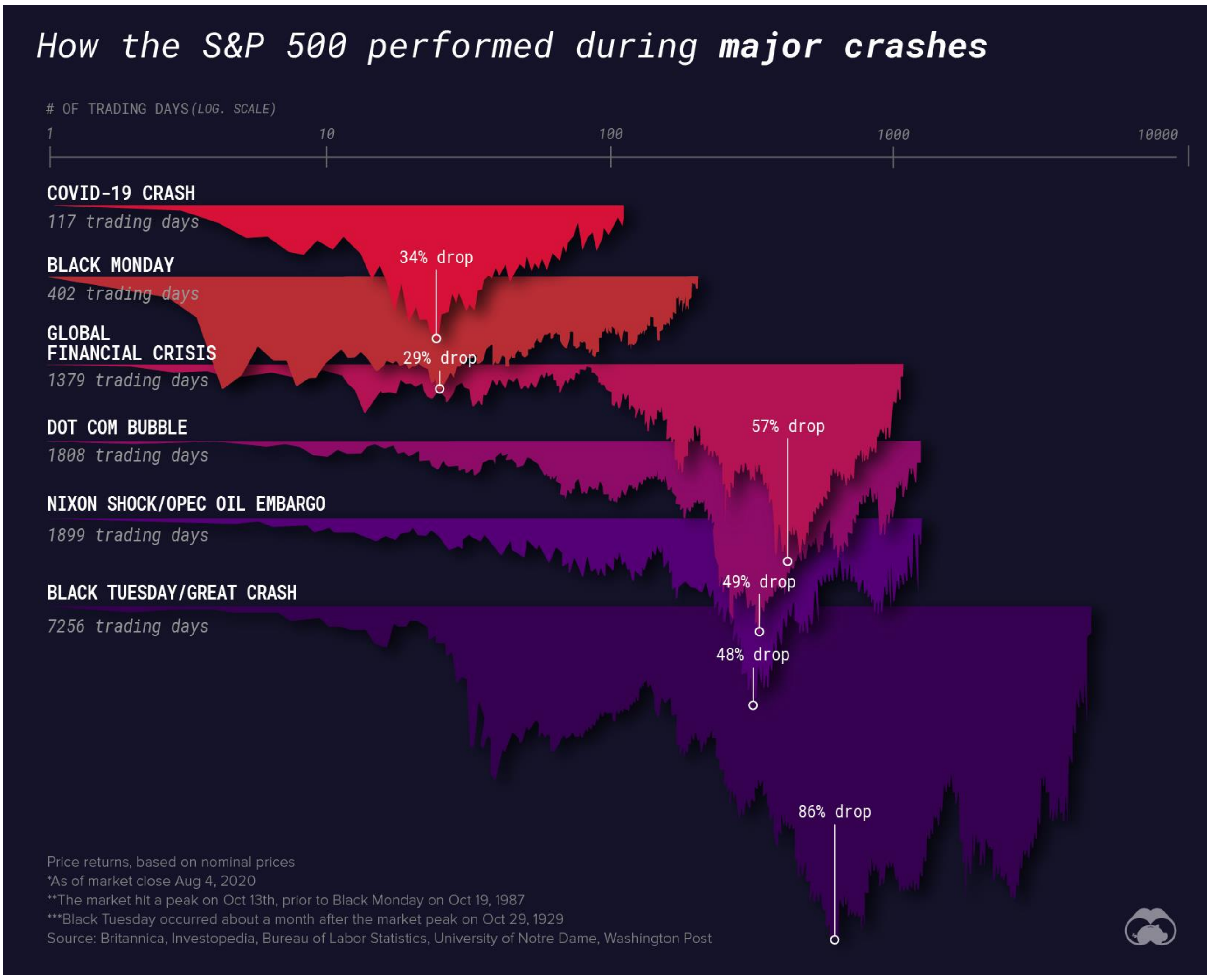
THE RCI BCI GROWTH FUND FINISHED 1ST!

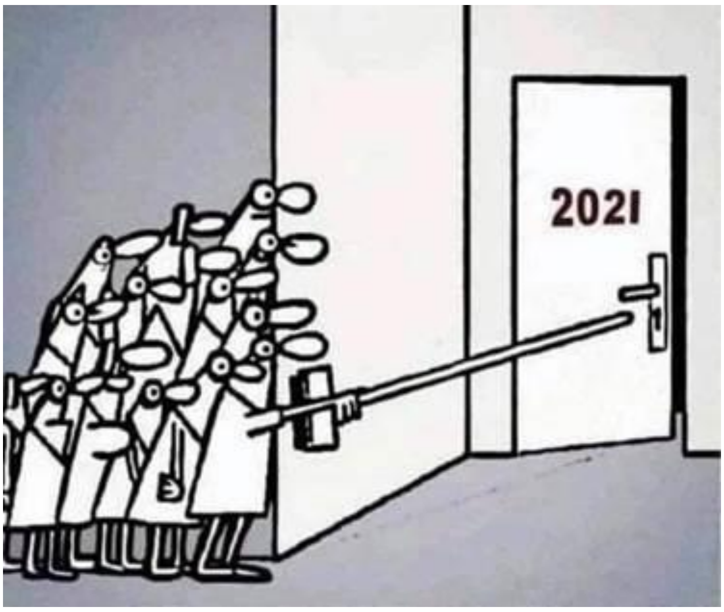
RCI was hard at work, not letting any pandemic fueled opportunities pass us by. 2020 marked a fantastic year for one of our more aggressive products. The RCI BCI Growth Fund (which focusses on exciting new global opportunities such as artificial intelligence, virtual healthcare, online streaming, cloud computing, electric vehicles, e commerce and more) closed the year up 54.67% and placed 1st in its category, out of 83 funds, with a return of over 5 times the average. It is now placed 1st on a rolling 1-, 2-, 3- and 4-year basis. We are very proud!

Name:	1 Month To: 31/12/2020	1 Year To: 31/12/2020	Rank	2 Years To: 31/12/2020	Annualised Performance	Rank	3 Years To: 31/12/2020	Annualised Performance	Rank	4 Years To: 31/12/2020	Annualised Performance	Rank	
Worldwide - Multi Asset - Flexible													
RCI BCI Flexible Growth Fund	5.78%	54.67%	1	87.30%	36.86%	1	79.40%	21.51%	1	91.67%	17.66%	1	1
RCI BCI Worldwide Flexible Fund - A	(2.97%)	21.50%	7	46.19%	20.91%	5	54.38%	15.58%	4	56.32%	11.82%	6	1
W/W - Multi Asset Flex	0.33%	10.91%	/83	26.07%	12.28%	/77	25.19%	7.78%	/75	33.57%	7.51%	/65	--



Please feel free to pass this great news on to friends and family who may wish to learn more about the fund. To find out more, please contact maggie@rcinv.co.za, or eric@rcinv.co.za


How the S&P 500 performed during major crashes
OF TRADING DAYS (LOG. SCALE)
1
10
100
1000
10000
COVID-19 CRASH
117 trading days
34% drop
BLACK MONDAY
402 trading days
29% drop
GLOBAL FINANCIAL CRISIS
1379 trading days
57% drop
DOT COM BUBBLE
1808 trading days
49% drop
NIXON SHOCK/OPEC OIL EMBARGO
1899 trading days
48% drop
BLACK TUESDAY/GREAT CRASH
7256 trading days
86% drop
Price returns, based on nominal prices
*As of market close Aug 4, 2020
**The market hit a peak on Oct 13th, prior to Black Monday on Oct 19, 1987
***Black Tuesday occurred about a month after the market peak on Oct 29, 1929
Source: Britannica, Investopedia, Bureau of Labor Statistics, University of Notre Dame, Washington Post


2021

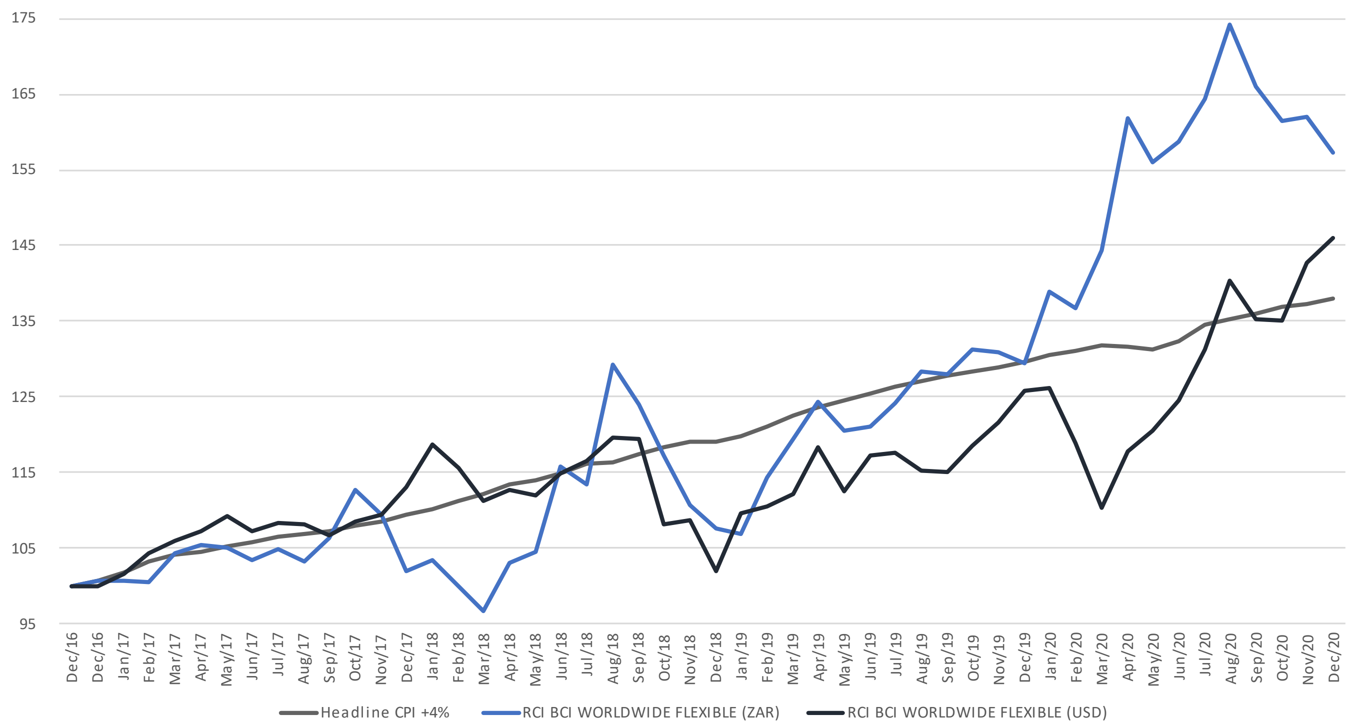

@cryptoexplorer
DID YOU KNOW?
THE STOCK MARKET GOT THE NAMES "BEAR AND BULL" BECAUSE OF THE WAY IN WHICH THESE ANIMALS ATTACK.
BULL MARKET
swipes UP when attacking
BEAR MARKET
swipes DOWN when attacking

RCI UNIT TRUSTS

'HAPPY TO TAKE SMALL AMOUNTS'

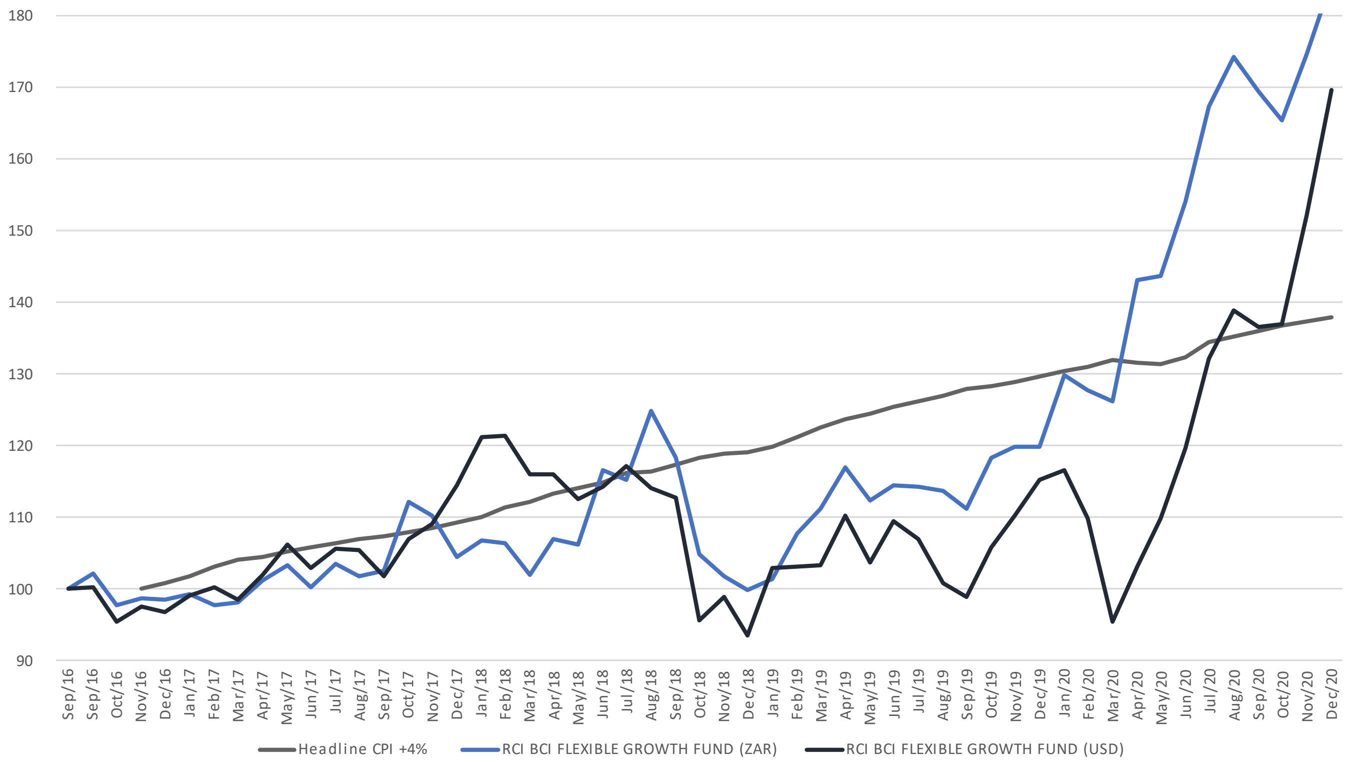
RCI BCI Worldwide Flex closed December at 157.27c, down 2.97% for the month and up 21.50% for the last 12 months. It is ranked 7th out of 79 funds in the same category for the last year, and 4th over a rolling three-year period.

RCI BCI Worldwide Flexible Fund



RCI BCI Growth Fund closed December at 184.85c, up 5.8% for the month and up 54.7% for the last 12 months. The fund is ranked 1st in category over year to date, 12 months, 2 years, 3 years and 4 years.

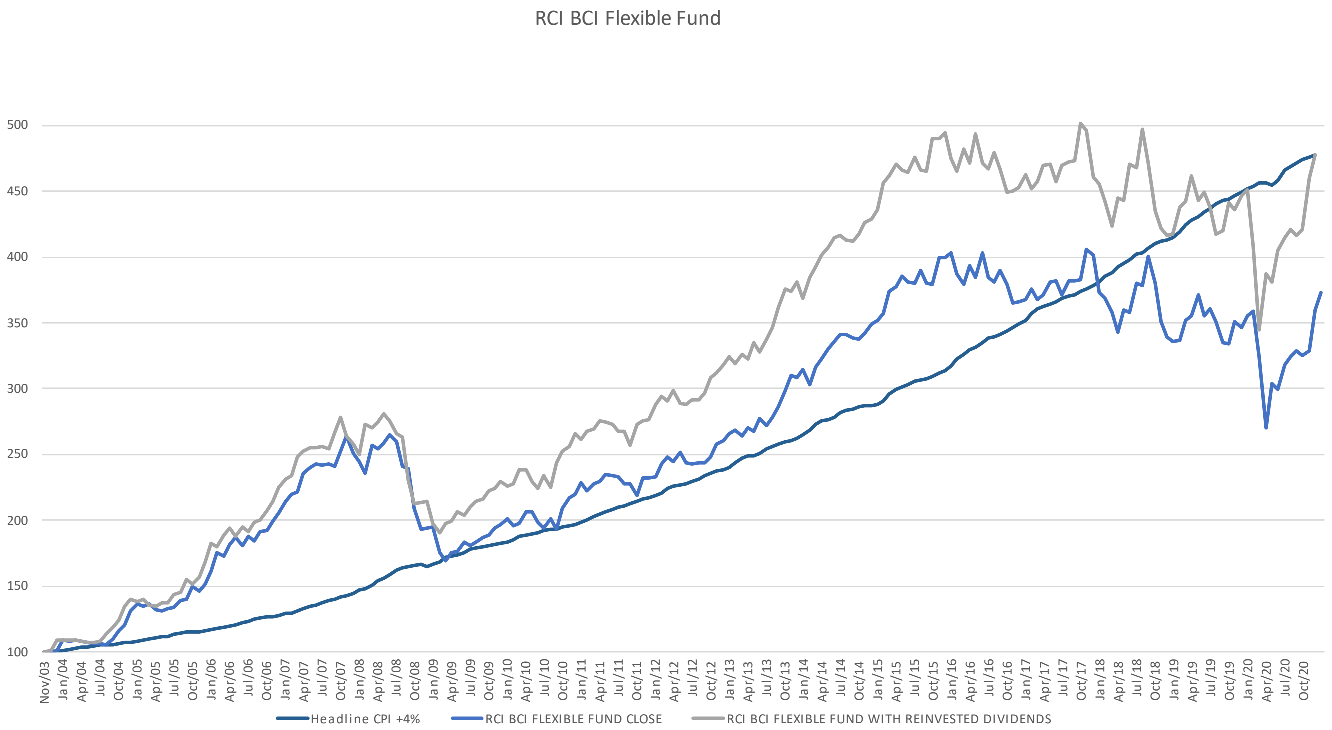
RCI BCI Flexible Growth Fund



RCI UNIT TRUSTS

'HAPPY TO TAKE SMALL AMOUNTS'

RCI BCI Flexible Fund closed December at 372.81c, up 3.7% for the month and up 7.2% for the last 12 months.



Our unit trusts have the flexibility to buy and sell shares and to change weightings more frequently than in an individual portfolio. We are happy to take small amounts into the unit trust (from R1 000 per month, to lump sums of up to R25 000). As you will not pay commission to any agents, there is no cost to get in and out of our fund. When selling, the amount you receive back will depend on our performance.

Collective Investment Schemes in Securities (Unit trusts) are generally medium to long term investments. The value of participatory interests (units) may go down as well as up, and past performance is not necessarily a guide to the future. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commissions is available on request from the company/scheme. Commission and incentives may be paid and, if so, would be included in the overall costs. The portfolio is registered under the license of Boutique Collective Investments, a member of the Association for Savings & Investment SA. Forward pricing is used. More details are contained in a fact sheet that is available upon request.

TO CONCLUDE…

DECEMBER 2020

December saw a great close to the year for equity markets around the world. Despite the global pandemic, most major indices managed to close higher, reminding us not to underestimate the amount of optimism out there. Despite a humanitarian crisis worldwide, major central banks stepped up to the plate to support where they could. We now have a vaccine and look forward to a global reopening.

In this newsletter, we include a brief summary of how equity markets performed last year. As mentioned above, most closed higher on the year, as investors looked past the short term negative economic impact and chose to focus on the recovery. We have a great mix of talent in the group, between stalwarts and youngsters, who can assist in identifying some exciting new trends we are witnessing due to the COVID-19 pandemic.

We reminisce on last year and reflect back on what we learned. Three things come to mind:

1. Risk is what you don't see, aren't talking about, and aren't prepared for.
2. Innovation and progress don't tend to happen when everybody is calm, happy and safe, but rather when there's a shock to the system and we are forced to solve problems out of necessity.
3. Optimism begins well before it is obvious.

We are excited about what the future holds and continue to keep a close look out for companies on our watchlist that should be able to generate our clients' solid returns from current levels, over the medium to long term.

Lastly, we are proud to cap off the year with one of our funds placing first for the year, with a return of 54% in what was otherwise a very challenging time. We hope to keep up the good performance.

In 2021, we hope to continue assisting you, our clients, by being the best Family Office we can be.

Di, Mike & Eric

PS: Please feel free to pass this newsletter on to friends and family who may wish to learn more about investing. To be added to our mailing list, contact eric@rcinv.co.za

RCI – “THE FAMILY WEALTH OFFICE”

WHAT WE OFFER:

FINANCIAL NEEDS ANALYSIS OF YOUR FAMILY’S ENTIRE ASSET BASE

- Evaluate existing asset base and asset allocation
- Evaluation of current investment structures (retirement, endowment, company, trust etc.)
- Establishment of future goals/objectives/risk appetite

RECOMMENDATION OF CHANGES TO EXISTING ASSET BASE AND ASSET ALLOCATION

- Suggested restructuring (per proposal)
    - Local/Offshore split
    - Trusts; local and offshore
    - Companies
    - Insurance
- Estate Planning
    - Calculating existing estate duty and capital gains tax
    - Assisting in reducing estate duty and capital gains tax
    - Reviewing trust deeds
    - Reviewing existing wills

INVESTING CLIENT FUNDS

- Bespoke local/offshore share portfolios
- Retirement funds
- Unit trusts (local/offshore)

ONGOING FULL CASH MANAGEMENT SYSTEM

- Fully managed transactional banking accounts for clients
- Third party payment functionality – debit orders and ad-hoc payments
- Transferring of funds offshore

FIDUCIARY SERVICES

- Trustees on more than 80 trusts
- Trust administration
- Trust accounting
- Tax compliance
- Assisting in applying for foreign tax clearance
- Legal compliance; drafting of resolutions, contracts and assisting with legal opinions

Robert Cowen Investments
Growing families’ wealth since 1982